Creative Restruction – How Business Services
Drive Economic Evolution

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Structured Abstract

Purpose:
This article explores the widely underestimated role of business services in driving the growth of the service sector, and the increasing specialization and productivity of our economies.

Design/methodology/approach:
We draw on statistical data and industry reports and link them to the non-ownership-concept in service research and the theory of the firm.

Findings:
Business services are the major driver of the service economy. Organizations focus on core competencies and outsource commoditized and non-core activities in order to free managerial capacity for the entrepreneurial pursuit of opportunities. This in turn drives the specialization and enhanced productivity of economies.

Research limitations/implications:
This research advances the non-ownership discussion in service research and integrates it with economic theories of the firm, including the property rights theory, the resource-based view and the entrepreneurial theory of the firm. This research makes a conceptual contribution without empirical testing.
**Practical implications:**
Implications for individual businesses include recommendation to focus on core activities and outsourcing of non-core competencies to competitive business service providers. Here, we identified three fundamental value propositions business service providers can offer their clients: (1) Reduction of the costs of asset-ownership (property rights theory), (2) freeing scarce management capacity to focus on high value-creation opportunities (resource-based view), and (3) the enhancement of their entrepreneurial agility and leverage (entrepreneurial theory of the firm). Policy implications include a better understanding of the role of business services in wealth creation and the recommendation to create and ensure competitive business services markets that are open to global competition.

**Originality/value:**
We provide an explanation for the role of business services as a driving force of economic development and business productivity.

**Classification:**
General Review

**Keywords:**
Service Economy; Business Services ; Service Productivity; Property Rights Theory; Resource-based View; Entrepreneurial Theory of the Firm.
1. The hidden roles of business services

1.1 The rise of the service economy

For the first time since the industrial revolution are there fewer than 10 percent of working Americans employed in the manufacturing sector. Is this cause for concern? People who think so point to a presumed lower productivity potential of services. However, in terms of output, manufacturing has not vanished at all. What is oftentimes coined as the decline of manufacturing is showing itself in the form of lower of prices as a consequence of constant efficiency gains and reduced employment within the manufacturing sector. One important factor is rarely noted in this regard: The role of business services in the re-organisation of our economies.

1.2 Business services have been growing rapidly

Over the past decade, the OECD’s research directorate of Science Technology and Industry (STI) has introduced major measures to get a more accurate picture of the service economy. These studies revealed that business-to-business (b2b) services (ranging from supply chain management and IT outsourcing to consulting and customer contact centres) are the major driver of the service sector in developed countries. These business-related services have grown their share to 20 to 30% of GDP in OECD countries by 2008, as compared to 10 to 20% in the 1980’s. In contrast, the share of mostly consumer services (e.g., restaurants, hotels and retailing) did not change...
significantly (Woelfl, 2005). The growing demand for services as “intermediate inputs” is an important explanation for developed economies becoming increasingly services dominated.

One driver of service demand is the transformation of manufacturing. To a growing extent manufacturers use services to replace activities not considered as core and delegate them to external service providers by the means of outsourcing contracts (Woelfl, 2005). As a consequence, the boundaries between manufacturing and services become increasingly blurred, with a substantial share of service business focusing mainly on improving manufacturing productivity.

Macroeconomic research has started to take note of the structural contribution of business services to economic growth. Traditionally, economic research held that services lag in productivity behind manufacturing and therefore inhibit economic growth - a phenomenon called “Baumol’s disease” (Baumol, 1967). This argument applies to certain consumer services, where productivity may not be the main purpose of service consumption or is hard to measure (e.g., a hair stylist or a fine-dining restaurant). If however, services are supplied to businesses, they can significantly contribute to productivity growth of manufacturing as well as the overall economy (e.g., Fixler and Siegel, 1999; Oulton, 2001). Indeed, the use of outsourced business services has been shown to be the most important driver of productivity growth, followed by the enhanced use of IT (Triplett and Bosworth, 2003).

1.3 Business services drive productivity growth in our economies

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Why would business services improve the productivity of manufacturing firms? Consider the following example. A manufacturing firm runs its own canteen with 100 workers, who in the national statistics are all classified as “manufacturing employees” (their output is captured in the added value created by their employer, the manufacturing firm). However, how good is a manufacturing firm in buying cooking ingredients, designing and running kitchen processes, supervising chefs, and controlling quality and costs in a canteen? The general answer is that they would probably neither produce fantastic food nor be very cost effective. The reasons for this are threefold. First, the operation lacks economies of scale and is high on the learning curve. Second, related to the first point, the manufacturer does not have a lot of experience catering to many sites, which makes management, cost and quality control, and benchmarking difficult. Third, the firm has little incentive to improve processes or conduct R&D on that aspect of its business, mainly because of the low volume and low criticality of canteen operation to the overall business. As such, the canteen operation would neither justify much management attention nor significant investments in process improvements or R&D (Wirtz, 2000).

Many manufacturing firms have recognized this problem and outsourced their canteen operations, most likely via a tender process with a renewal every few years. The winning bidder is likely to be a large catering firm or a firm that specialises in running canteens or kitchens across many sites. That company makes “operating canteens” its core competency, so the operation is managed with an emphasis on service quality and cost efficiency (sites can be benchmarked internally), has economies of scale, and is way down the learning curve. It also makes sense for the firm to invest in process redesign and R&D, as the benefits can be reaped across multiple sites. What used to be a neglected support activity within a manufacturing firm has become a core focus and
core competency of an independent service provider calling for entrepreneurial
responsibility and professional management.

Let us look at how this works in a real-world example. Omega Healthcare, a US-
registered company with its core operations in India, provides services like medical
coding, billing and accounts receivable management, claims processing and clinical
support services (e.g., radiologymedical services) to health care facilities in the United
States. As a specialist provider that focuses on a few key processes, Omega Healthcare
contributes to overall process quality of its clients, for example through increased
accuracy in coding and billing, and faster collection from insurance firms. Omega
Healthcare’s services improve its clients’ cash flows and revenues in addition to
significant cost savings of 30 to 40% compared to hospitals and clinics that perform
these activities in-house. Omega Healthcare helps its clients to tap into its expertise and
focus on the design and management of key back-end processes and provides access
to a pool of well educated and comparatively affordable professionals in India. Its clients
benefit from the ability to outsource support capabilities to a best-practice service
provider and thus free resources to focus on customer service and relations, and the
development of health-care offerings.

While service trade is inevitably affected by international wage levels, one
necessary condition for the rise of services stems from the specialization-potential of
companies that is not exclusively driven by mere wage or cost differentials. For instance
Omega Healthcare has significant operations in the US in order to be able to provide a
seamless integration of its support services into its customers’ operations. What drives
the division of labour between companies? This is the main question addressed by
theories of the firm, which is discussed in the next section.
2. Theories of the firm and the rise of business services

2.1 Co-creation and the conceptual foundation of services

The rise of the service economy has spurred an intensified debate about the conceptual foundations of services. Business services are a point in case: With a growing supply of business services, the lines between services and manufacturing are increasingly becoming blurred as companies are gaining access to assets and capabilities without the necessity of owning them. In such settings, commonly used definitions of services may become confusing. For instance, the Intangibility-Heterogeneity-Inseparability-Perishability-categorization (also called IHIP) used for differentiating goods from services (Zeithaml, Parasuraman and Berry, 1985) can render quite paradoxical results. For example renting a car still is about tangible elements of value creation (the car), but rests on a closer process between provider and user during the rental period and poses specific requirements for the management of service processes and capacity management for the provider.

2.2 The service-dominant logic

The “service-dominant logic” (S-D Logic) is a recently advanced conceptualization of goods and service (Vargo and Lusch, 2004, 2008). It advocates that all products (goods and services) are valued for the service they provide and that value is co-created. For example, a razor ultimately provides a barbering service that is co-created with the user, and the value is derived from this service and not the good itself. One implication of the S-D Logic-debate is that a clear distinction between goods and services becomes theoretically impossible and in reality probably pointless as most real transactions have features of both, goods and services to varying degrees. S-D Logic
provides an escape from this dilemma. It suggests the distinction of resources for value generation, like knowledge and skills that are applied to provide value with resources for value mediation, like products or assets (Vargo and Lusch, 2004). Both goods and services are specific modes of service provision with products and assets being mediators of value. Many authors tend to associate services with “the interactive and networked nature of value creation” (Ballantyne and Varey, 2008; Vargo and Lusch, 2008) driven by the increasing share of interaction in the value creation process.

2.3 Potential contributions of a non-ownership perspective

S-D Logic does not (nor does it aim to) provide a satisfying conceptualization of the service domain. Rather, it sees goods as just one particular means for providing service through various resources varying from goods and assets to skills and knowledge. This perspective does not only imply the interaction of different kinds of resources, as stated in S-D Logic, but it also affects substantially the division of labour between service providers and their clients. For example, if a manufacturing company outsources support operations like maintenance and repair or assets like buildings, machines or information systems to an external company, these former manufacturing activities become service activities as defined in our national statistics. While such outsourcing will result in changes of management focus and will lead to new modes of interaction of the client’s (i.e., the manufacturer’s) resources with the service provider’s resources, the decisive step is the decision about a new form of division of labour. Here, the question of ownership provides a consistent criterion for distinguishing the service provider from the service client.

Ownership and its transfer have been the guiding maxim underlying the research stream on the non-ownership-perspective of services that started in the 1960’s (Judd,
1964; Lovelock and Gummesson 2004). For example, one can enable oneself to use a car by either buying or renting one. Most economic statistics would classify the first case based on the acquisition of ownership rights as a goods-business, and categorize the rental-case as a service business. This is the basic idea underlying Lovelock and Gummesson’s (2004) proposition of the rental-access paradigm of services. Thus, the main factor differentiating goods-centred from service-centred transactions relies on the exchange of ownership rights. Services are defined to be based on transactions without the exchange of ownership rights, whereas goods-business entails the trading of ownership titles.

This approach captures decisive features of service industries in general and business services in particular. For example, renting assets or hiring consultants enables clients to enjoy the potential benefits without necessarily owning the former or employing the latter. However, if companies perceive assets and people as a burden, why do they find service providers who are willing to take on these responsibilities? While services free users from the burdens and responsibilities of ownership, service providers are partly taking over ownership and see this as a business opportunity (e.g., Rifkin, 2000). So, it would be misleading to interpret the non-ownership-paradigm as a proposition claiming the disappearing of ownership. Rather, a better view to understand services would be to see them as one way to re-allocate ownership from user to service provider, thus enabling collaborative modes of value creation.

The non-ownership debate on services has been virtually silent on the role of ownership in service provision and value creation. We want to contribute to this debate by highlighting how the re-allocation of ownership has helped to create new markets for business services and consequently helped to improve productivity of both, service clients and their providers.
The economic potential of business services results mainly from the fact that ownership carries both costs and benefits. Service providers benefit their clients by developing capabilities of managing assets and competencies. By refraining from ownership, clients tap into benefits of division of labour between organizations. This thinking underlies the debate of the economic theory of the firm which we will focus on next.

2.4 Applying the theory of the firm perspective to business services

Why do firms exist? What determines their boundaries? What factors affect the change of these boundaries? These are the basic questions that are at the centre of the theory of the firm discussion, and they resulted in three major theoretical streams of research. First, property rights theory is concerned with the costs and benefits of ownership and their implications for efficient allocation of property rights within a network of collaborating firms. From the perspective of the property rights theory, service-contracts help companies to economize costs of ownership. As an organizing principle, companies should design service contracts in such a way that assets and human competencies are managed by the company that is in the best position to maximize their value.

Second, the resource based view highlights management capacity as a major limitation of a company’s growth, and asks for management attention to be focused on high value-creation opportunities. As an organizing principle, the resource-based view advices companies to free scarce management capacity by outsourcing the management of non-core activities and assets to specialized service providers.

Finally, recent developments in a third stream, the entrepreneurial theory of the firm, highlight the market process as a force driving the re-organization of tasks and
processes between businesses in order to explore and exploit new business
opportunities. As an organizing principle, companies should use contracts with service
providers to align economic responsibilities for assets and competencies in line with
business opportunities. We will next discuss these three streams of research in the
context of the rise of business services.

3. Property rights theory: Costs and benefits of
ownership

Property-rights theory was developed for the analysis of economic issues arising
from the shared use of assets. Assets are conceived as bundles of potential uses
(Barzel, 1997). For example a car can be used for commuting from home to work, for a
holiday trip, for a business trip or for making an impression in front of a club. A machine
might be used for the manufacturing of different product lines. In principle, economic
actors can resolve potential conflicts regarding the use of an asset by writing the
contracts so that they reflect the value of the intended asset use. Thus, contracts can be
used to put assets to the most valuable use, under the assumption that the contracts
accurately reflect the different valuation of the various users and that enforcing the terms
of contracts is costless. Then, the institution of ownership would not matter from an
economic point of view as all economic actors simply rent what they need according to
their valuation, thus ensuring the highest valued use of an assets.

However, the theorem developed by Coase (1960) states that writing and
enforcing contracts is costly and also in many cases impossible, as a substantial
proportion of information is not available at the time of contracting. Personal
circumstances might imply new intentions for using the car. Shifting demand might imply
new manufacturing plans and thus affect the valuation of machine time. To the extent
that actual contracts do not reflect these circumstances, asset users are exposed to potential extortion or “hold-up” by the owner. For example, an industrial customer who has a contract with a supplier for parts faces the danger of “hold-up” if he wants to ramp up production because of a sudden increase of demand (Williamson, 1971). The supplier may use his monopoly position to charge higher prices in order to re-distribute profits.

Asset ownership equips its holder with means against such hold-up situations as it assigns its holder the residual authority over an asset (Grossman and Hart, 1986). Owners have the authority to grant and deny access to the use of their assets. Also, ownership allocates residual profits and losses from asset income to the owners, thus unifying residual authority with residual income. In addition, the owner is entitled to specify contracts that delegate specific rights, that is (1) the right to use an asset (ius usus), (2) to change its form and substance (ius abusus), (3) to obtain income or other benefits (ius fructus), and (4) to transfer all rights through a sale or some through, for example, rental agreements (ius sucessionis) (e.g., Furubotn and Pejovitch, 1972).

From the perspective of property rights theory, the nature and boundaries of a firm are defined by the bundle of ownership rights a company holds. Thus, what appears in many managerial concepts like outsourcing or a “make-or-buy” decision is treated as an “own-or-rent” decision by property rights theorists. Ownership entitles a firm to enjoy all potential benefits of an asset (under given legal and political restrictions), but makes it the residual claimant for all costs associated with that particular asset. Service contracts provide access only to a clearly defined use of an asset specified in the service contract, but also free users from risks associated with ownership. If a company is able to clearly define its terms of asset use, it can get the value it really needs without being exposed to unrelated potential other costs due to asset-ownership. Property rights theory helps to highlight factors that render owning assets and employing competencies inefficient and
play in favour of value creation by external service providers. In that light, the rise of the service economy is marked by a shift from internally generated services based on company owned assets to the use of specified contracts with external service providers. This shift can be explained by reduction in two types of costs that encourage the use of contracts and rental of assets rather than their ownership.

First, measurement costs accrue from the problem of identifying the value contribution of collaborating partners to a finished output. One strand of property rights theory assumes that the party with the least measurable contribution takes on asset ownership and hires the services of the complementing collaborators. As companies gain experience with an activity or technology they become more capable of writing contracts for external sourced services. Furthermore, recent developments in information technology allow companies to better measure outputs. Together, the reduction of measurement costs fosters external sourcing (Barzel, 1997).

Second, governance costs mark the other significant strand of property rights theory. Governance costs accrue from investments in specialized assets such as a highly customized machine. Users of such assets are exposed to value capture if such assets are owned by an external firm. As a consequence, these specific investments should be backed by ownership rights that grant its holder residual control over the use of the relevant assets. From a governance-cost perspective, external sourcing is favoured as soon as an asset class has lost its specific character. For example, as soon as a manufacturing process or technology becomes common, the benefits of ownership are diminished, eventually favouring to hire services from a contract manufacturer rather than owning and operating a plant (Grossman and Hart, 1986; Hart, 1995).

To summarize, property rights theory provides an organizing principle by which ownership is assumed by the economic party that is in the position to maximize its value. In maturing industries, assets tend to lose their specific character and companies
become more capable of measuring value contributions. This leads to an increased
division of labour between companies, where downstream companies tend to source a
growing share of services from upstream service providers who specialize in asset-
ownership. Property rights theory highlights a key value contribution of business services
providers: supporting their clients in economizing on the costs of ownership.

4. The resource based view: Management capacity and
growth opportunities

Property rights theory ascribes management a rather passive role, mostly
carried out to the efficient allocation of rights and the supervision and measurement of
employees. In contrast, the resource based view highlights the aim for growth as a
driving factor behind the division of labour between firms, and thus conceives a more
active role of management in shaping the position of a firm (Prahalad and Hamel, 1990;
Wernerfelt, 1984, 1995). The resource based view holds the basic assumption that firms
are the tools and sources of differentiation. In their pursuit for growth, firms strive to build
unique capabilities in order to capture rents not available in undifferentiated markets.
Penrose (1959) pioneered this approach by providing a conceptual framework for
investigating the key-factors that affect a firm’s growth. She started from an assumption
similar to the property rights theory approach: Resources are bundles of different uses,
and consequently, resource value is derived from the services they are applied to
(Penrose, 1980). Firms differentiate themselves by developing unique capabilities for the
use of resources. This perspective makes management (in a broader sense) the
decisive force that differentiates a firm and affects its growth.

One important strand of the resource based view investigates how companies
can cultivate resources that drive their differentiation. These resources include “those
(tangible and intangible) assets which are tied semi-permanently to the firm, such as brand names, in-house knowledge of technology, employment of skilled personnel, trade contacts, specialized machinery, efficient procedures and capital (Wernerfelt, 1984). A key force driving the growth of the firm is based on the perception of growth (or differentiation) opportunities by the firms' management (Penrose, 1980). Management shapes the growth options of a firm in two important ways: (1) Management capacity shapes and determines the growth opportunities of the firm. A firm can only target that fraction of its growth opportunities that its management capacity allows to address (Penrose, 1980, p. 43-64). (2) Achieving above market rates of return requires differentiation as a key ingredient for successful growth. The resource-based view holds that every firm starts with some set of unique resources and capabilities that shape its actual course of differentiation.

There are important implications of the resource-based view for the rise of business services. A company's ability to exploit new entrepreneurial opportunities is constrained by its managerial capacity. Service companies provide the means to delegate management responsibilities to external service providers and free scarce management capacity. The vision of the resource-based view is the intelligent enterprise that frees its management capacity for the pursuit of the most promising and profitable business opportunities, while delegating complementary activities to a network of world class service providers (Quinn, 1992). As a guiding principle implied by the resource-based view, companies should design their boundaries in order to focus on their core competencies. The resource based view highlights one genuine value proposition of business service providers: They empower the management of its clients' companies to focus on their most promising activities by releasing them from non-core responsibilities.
5. Entrepreneurial theory of the firm: Contracting and the rise of the business services

While property rights theory highlights economic efficiency criteria affecting the boundaries of the firm, the resource based view focuses on the role management capacity in developing growth opportunities. Both theories provide compelling explanations for the increasing demand for business services. However, but both approaches show limitations with respect to the evolution of economies based on business services. Property rights theory provides snapshot-pictures of the division of labour between companies, thus allowing for limited insights into the dynamic process that led to observed situations. The resource-based view highlights several dynamic factors, like management capabilities or differentiation competencies, but lacks a valid criterion for defining the boundaries of the firm within business networks (Ghosh and John 1999). Specifically, as a firm is described in terms of competencies, the collaborative use of competencies obstructs the identification of the boundaries of the firm (Dyer and Singh 1998). One research stream that is able to unify important elements of property rights and resource-based approaches from a dynamic perspective is the entrepreneurial theory of the firm which we discuss next.

Research in economics (e.g., Baumol, 1993; Kirzner, 1973), and strategic management and organisation (e.g., Alvarez and Barney, 2004; Shane and Venkataraman, 2000) has highlighted how entrepreneurs shape organizations and how organizations support entrepreneurial action. The entrepreneurial theory thus provides a framework depicting the dynamic forces that affect the boundaries of the firm and the rise of business services.

Broadly conceived, entrepreneurial action is concerned with the exploration and exploitation of profit opportunities arising from economic disequilibria (Kirzner, 1997;
Shane and Venkataraman, 2000). Firms show a Janus-face, one half consisting of individual perceptions of and visions for business opportunities, and the other half consisting of organizational resources, rules and routines that help it to shape and exploit profit opportunities. Kirzner highlighted the role of the entrepreneur as an agile agent who identifies opportunities ignored by other market participants and takes action to profit from them. Arbitrage is its simplest and purest form - buying low from ignorant sellers and selling dear to ignorant buyers.

Kirzner (1973) advanced that arbitrage is just a simplified version of a universe of profit opportunities that can be exploited by other commercial activities such as manufacturing, trade or R&D. Entrepreneurs enhance the range of business opportunities by mobilizing capital and knowledge, developing efficient routines by the means of business organization within a firm (Klein, 1999; Mises, 1949). While everyone has some potential for acting entrepreneurial, economic organization provides a substantial leverage for entrepreneurial activity. For example, the evolution of the mass market for a car is not only driven by a visionary entrepreneur who perceives the potential for individual means of transportation, but by the design of an organization that mobilizes capabilities and resources for its development, manufacturing and promotion. Most likely, the interaction of managers and employees creates new knowledge entailing new opportunities for efficiency improvement or product differentiation. In a nutshell, entrepreneurs are the lifeblood directing firms to profitable opportunities, while firms provide entrepreneurs with an infrastructure that can enhance if not create entrepreneurial opportunities (Lewin, 1999; Sautet, 2000).

This entrepreneurial perspective has decisive implications for the role of property rights, the boundaries of the firm and the dynamic processes that affect their movement, and the subsequent rise of business services. In this perspective, property rights are tools for directing entrepreneurial processes. Firms use property rights to direct
resources to expected higher valued uses, based on an entrepreneurial vision and a business model for its implementation (Foss et al., 2007). Equity-ownership is the instrument to bear the risk entailed in entrepreneurial projects and thus is used to attract resources for implementing entrepreneurial projects (Knight, 1921). Therefore, equity is shaping the scope of entrepreneurial projects that are feasible for a given firm, and subsequently shapes its boundaries on resource and product markets. Consequently, resources and activities not related to firm-specific business opportunities should be sourced from external service providers. Firms can use business services to shift entrepreneurial uncertainty to an external provider that is better positioned to manage the contingencies of a certain activity, for example, market research, applying specialized management methods, or maintaining a resource like a machine. With the help of business services, equity can be applied to the most promising elements of the value creation process. Each company can scale its activities in line with its most promising business projects.

One distinctive contribution of the entrepreneurial theory of the firm is to highlight how the market process shapes the division of labour between companies (Kirzner, 1997). Profits resulting from a company’s successful entrepreneurship are likely to attract imitators trying to tap into the new field of opportunity. Imitation of business models is likely to erode profits and as a result the economic position of the pioneering firm is weakened. The quintessence of the entrepreneurial theory of the firm is that the market process forces companies to strive continuously for new business opportunities in the face of commoditization and erosion of profits. Contracts are practical means in order to (1) shift commoditized assets and activities to specialized service providers, and (2) get access to new opportunities created by new specialized external firms. Contracts are means to design the firm in line with its business opportunities. Thus, growth and
survival of a firm rely on a continuous adaptation of its contractual boundaries to explore and exploit business opportunities (Foss et al., 2007).

As a consequence, market opportunities for business services arise in the upstream areas of the value chain, supporting entrepreneurial downstream firms in their re-organization process. Business service providers can support a consolidation of activities and assets that have become commoditized. For example, IT-service companies increasingly adopt new service platforms with enormous economies of scale that reduce hardware, software and IT-management requirements of their client companies' information systems with offerings such “software as a service” and “cloud computing” models. Hitherto, these systems were managed by the client firms themselves in their pursuit of competitive advantage. Business services help the client organizations to consolidate their internal activities and free resources for envisioning new business and differentiation opportunities.

The contribution of the entrepreneurial theory of the firm results from its process-perspective that allows it to capture the dynamics driving economic re-organization. External business services are the organisational answer for companies facing growth limitations and imitating competition. Business services free and support the clients’ managerial capacity and capital for seizing entrepreneurial opportunities, while they at the same time provide new market and investment opportunities for specialized service providers. These new modes of division of labour result in new cost structures highlighted by property rights theory, and provide new frameworks for cultivating core competencies, emphasized by the resource-based view.
6. Conclusion: Entrepreneurial contracting and the rise of the service economy

6.1 Summary and Conclusions

Does it pay for an economy to have a large service sector? For a long time, economic theory suggested that the impressive productivity gains in manufacturing tend to be shifted to rather unproductive investments in consumer services, a phenomenon named Baumol's disease. This view is not longer tenable if we take business services into account.

Statistically, business services showed the strongest growth in terms of both value add and economic productivity. A substantial share of the productivity gains in manufacturing can be attributed to the growth of business services, which are an outcome of the division of labour between companies. Economic theory holds that a growing economy is likely to show a higher degree of division of labour between firms (Arrow, 1971; Becker and Murphy, 1992). However, mainstream economic theory represents the firm by a production function that is a black box with respect to organizational and managerial features of division of labour (e.g., Holcombe, 1998; Klein, 1999). Theories of the firm provide starting points for a deeper understanding of the value resulting from the division of labour between organisations. The three approaches we discussed reveal fundamental value propositions business services offer their clients. They are: (1) Reducing the costs of asset-ownership (property rights theory), (2) freeing scarce management capacity to focus on high value-creation opportunities (resource-based view), and (3) enhancing the entrepreneurial agility and leverage (entrepreneurial theory of the firm).
Business services are the backbone of an evolving “venturesome economy” (Bhide, 2008), enabling society to serve new needs and explore new opportunities for resource use. With the increasing importance of the service sector, efficiency in service industries is predicted to be among the major drivers of future growth. Competitiveness in services rather than in manufacturing will drive economic growth in developed economies for years to come. The creation of value is increasingly knowledge-based. As noted by the distinguished management thinker Peter Drucker (1994), “the central wealth-creating activities will be neither the allocation of capital to productive uses, nor ‘labour’ … value is now being created by productivity and innovation, both applications of knowledge to work.” Services are no longer considered as peripheral activities supporting the manufacturing sector, but the backbone of its economic performance.

6.2 Further Research

The entrepreneurial theory of the firm implies a boon of opportunities for service research. Many emergent service markets experience strategic shifts of industries – turning points where a class of assets and capabilities brake rather than spur the growth of a firm. At this point, theory is able to highlight the business potential for companies which develop service-systems to support re-organization of companies. Entrepreneurial perspectives on economic organisation provide important underpinnings of a service science for the investigation and design of systems for the co-creation of value (Spohrer and Maglio, 2008). The vibrant discussion on business-models is one significant example. Much more research is needed that highlights the antecedents, management practices and performance factors of the implementation of new business services.

Another promising research opportunity is in the use of option for the pricing of service contracts. The central value proposition in many service contracts is similar to
the value proposition options provide in financial markets. Specifically, they increase the flexibility of their holders and can be used to navigate investments contingent to threats and opportunities. Option pricing provides an analytical framework for the research and the design of shared entrepreneurial responsibilities. Many service contracts have salient features similar to financial options; they can be used like put options to limit downside-risks, or like call-options in order to provide access to new profit opportunities, such as granting access to technology, capacity or capabilities (Dixit and Pindyck, 1993, 1995; Trigeorgis, 1999). This view not only can potentially provide guidance for the pricing of service contracts, but also for the way value propositions are being communicated, and the structure or design of the contracts (i.e., service options) to increase or decrease a client’s flexibility. While the application of “real options” to the study of managerial decision-making is a rather young and fuzzy field, it provides excellent opportunities for service researchers and pioneering managers.

The conceptual debate on services is enriched by theories of the firm. By highlighting business services as a managerial answer to cope with the challenges of ownership, managerial capacity and focus on entrepreneurial opportunities, they contribute to a refinement of the rental-access perspective on services. The future of this research stream is to provide a meaningful definition of business-services based upon the division of labour between organizations, resembling salient and valid features of service, economic criteria and addressing managerial triggers, like contracts, pricing and organization. As Rust (2004) pointed out, organizational and economic aspects of service systems deserve more attention by researchers.
6.3 Implications for Policy Makers

The most important message for policy makers is that economic growth is heavily driven by business services. Thus, many concerns raised with regard to the rise of the service economy are simply misplaced as far as they do not note the role of business services. They are not only important drivers of manufacturing productivity, but also a source of employment, growth and innovation. Thus, policies should support trade and market access in order to support structural change through business services. The most likely outcome is enhanced growth and productivity gains that enable society to cope with potential downsides of structural change.
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FIGURE 1

SERVICE SECTOR VALUE ADDED EMBODIED IN MANUFACTURED GOODS.

Share of Business Services

Source: adapted from Woelfl (2005a), p. 22.